Crop Insurance Broadcast

Summary, Conclusions, Alternatives and Input

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Some useful references

- Web addresses
  Farm Service Agency
  http://www.fsa.usda.gov/
  Risk Management Agency
  http://www.rma.usda.gov/
  USU business management
  http://extension.usu.edu/coop/ag/agbus/
- A basic text
  Managing Risk through Crop Insurance
  by: William M. Edwards and G.A. (Art) Barnaby. Deere and Company. 2000

What insurance alternatives are available?

- Crops that are not insured in your area
  1. Self insurance
  2. NAP
  3. Initiate an actuarial change request
- Crops that are insured
  1. CAT
  2. Production coverage (MPIC, GRIP)
  3. Revenue Coverage (CRC, RA, IP)

What are the chances that a loss will occur?

- Depends on the type of event (drought, insects, etc)
- Historic data and experience are key elements. Some disasters can not be predicted.
- Expected values provide insights

Dry land wheat production in 2001 as a percent of 5 year average

County	Percent	County	Percent
Box Elder	77%	Cache	64%
Davis	60%	Morgan	56%
Rich	60%	Salt Lake	63%
Toole	64%	Weber	57%
Juab	52%	Utah	56%
San Juan	92%	Uintah	51%
Iron	80%	Millard	47%

Expected Values

- Explicitly incorporate probability
- Example

Actual Production History = 32 bu/acre

Expected yield	probability
10 bu/acre	.2
20 bu/acre	.4
30 bu/acre	.3
35 bu/acre	.1

Expected value = 10*.2 + 20*.4 + 30*.3 +35*.1
= 22.5 bu/acre

Percent of APH = 22.5/32 = 70.31%

Budgets are the primary methods used to evaluate insurance purchases

- **Partial budgets** based on enterprise budgets for a farm (Costs and Returns with and without insurance)
- **Cash Flow budgets** (impact of losses and gains on family living and debt payments)
- **Whole farm budgets** (impact of losses and gains on other enterprises)

What are some actions that might be taken associated with potential crop losses?

- Accept the expected risk (self insure)
- Plant crops that are not susceptible to the losses that might be incurred.
- Take actions to reduce losses (irrigation, spray, etc)
- Shift risk to someone else
  - Insurance
  - Crop share rather than cash rents

What do you need to do to obtain crop insurance?

- Assemble verifiable crop production records (acres and production for each crop or field---five years suggested)
- If using NAP go to local FSA office
- If another type of insurance is wanted contact a representative of a crop insurance firm

Example premiums for insurance on Wheat crop

(Morrow county Oregon, 2002)

Level of coverage	MPCI premiums per acre	CRC premiums per acre
50%	$ 0.52	$ 0.80
55%	$ 0.66	$ 1.06
60%	$ 0.80	$ 1.30
65%	$ 1.10	$ 1.83
70%	$ 1.42	$ 2.39
75%	$ 2.10	$ 3.51
80%	$ 3.25	$ 5.45

Some basic conclusions

- Crop insurance purchases like other types of insurance is something you hope will not be needed.
- The amount of coverage will vary for each producer.
- The federal government subsidizes the premiums paid for crop insurance and NAP.
- The subsidy decreases as the level of coverage increases.

Some basic conclusions (continued)

- The cost of crop insurance is a fixed cost once it is purchased and should not affect future decisions until next year.
- Accurate production records are needed to take full advantage of use crop insurance and programs in the 2002 farm bill.
- The cost of insurance (premiums) increase as the level of coverage increases. There is not a single “best level” of coverage.

Questions and Comments

- Was the information provided today useful?
- What else is needed?
- What programs or information is needed for farmers in your area?
- How might this be best provided?
- Send written comments to
  bruceg@ext.usu.edu

Thank you

and

hope/pray for more

rain and a wet winter

We all need it